



# Washington State Department of **General Administration**

## **Tumwater Office Building**

**The 2001 Legislature authorized General Administration (GA) to lease-develop an office building (150,000-200,000 square feet) in Tumwater. Important project objectives are to reduce the costs and improve efficiency of government by helping to consolidate and co-locate agency offices.** The 200,000 square foot Tumwater Office Building will be on state-owned land close to the Labor and Industries Building. The land was purchased from the Port of Olympia in 1993.

### **Tenants**

The Washington State Patrol and Department of Transportation have been identified as the agencies that would benefit the most from the consolidation and co-location in the Tumwater Office Building. The co-location will achieve the following agency related benefits:

- ✓ The Tumwater Office Building brings two critical transportation agencies side-by-side in their day-to-day operations. It improves their ability to respond and manage an emergency or natural disaster.
- ✓ The Washington State Patrol will consolidate headquarters and administrative functions from six dispersed leased facilities into one efficient site (planned since the East Campus Plus project in the late 1980's).
- ✓ The Department of Transportation will bring separated agency functions back together and enhance joint transportation agency operations, including emergency management and response, collision reporting and analysis, commercial vehicle management and wireless communication.
- ✓ The Tumwater Office Building will have enhanced security systems and structures. This will assure continuous, uninterrupted operations.

### **Guidelines**

GA's design guidelines for this project require a durable and cost-competitive building and improvements in technology, security, building operations, and energy efficiency. The design guidelines provide for a LEEDS-Silver certified building.

### **Savings from Competition**

Wright Runstad was selected as the developer after a two-phase competitive process. GA shared the target market rate that developers would have to "beat" in order to satisfy budget proviso requirements and encouraged alternative financing approaches to achieve the lowest possible state costs.

The Tumwater Office Building will be leased, not owned, by the state. A 25-year lease will provide the state with future options to buy the structure as well as ownership at no cost at the end of the 25-year lease term. The Legislature will need to authorize GA to execute an ownership option at any time prior to year 25. The use of a lease strategy along with a 63-20 financing method will enable the two agencies to occupy a "high performance" building at a competitive price. This strategy allows the state to shift the risk from any project cost overruns to the private developer. It also shifts the burden of financing to a not-for-profit corporation. It ensures a building that will meet state needs for an extended period (50 + years) while also establishing attractive future purchase terms.

## Lease Costs and Advantages

The 2001 legislation contained a proviso that the lease rates needed to be as good as the latest lease rates in comparably sized office buildings in Thurston County. The Tumwater Office Building will have comparable rates with leases in similarly sized new space in Thurston County, but the Tumwater Office Building will have higher lease rates than average rates for currently leased older space. However, the state will realize other important benefits:

- ✓ **Stable Leases.** The base lease rates are pre-set for the 25-year period. Other leases will not have limits on increases over time, so upside risk is minimized. Cash flow cost will be about the same as the existing leases over time.
- ✓ **Ownership Options.** The building will revert to state ownership at the end of the lease term (25 years) even though it is being financed by Tumwater Office Properties.
- ✓ **Greater Efficiency.** Developer Wright Runstad's proposed building would accommodate approximately 1,000 employees, making this building among the most efficient in the state inventory. There would be 10 percent to 15 percent fewer square feet per employee than in existing leased space without an adverse impact on employee comfort or program functionality.
- ✓ **Reducing Costs.** Potential budget reductions have been identified in such areas as vehicle leasing and computer server costs through the consolidation and co-location of proposed tenant agencies.
- ✓ **Sales Tax Revenue.** This project will generate approximately \$2.7 million in sales tax revenue during the upcoming biennium.
- ✓ **Job Creation.** Approximately 300 construction jobs would be created.

## Project Approvals

- ✓ WSP and WSDOT have formally committed to the project.
- ✓ OFM has certified that the project meets all legislative requirements and agrees that the project represents an appropriate use of state resources.
- ✓ State Capitol Committee has approved a property reversion agreement with the Port of Olympia
- ✓ State Finance Committee has approved the lease/financing contract.

## Next Steps

- ✓ City of Tumwater site entitlement processes will be completed.
- ✓ The two candidate agencies will sign formal letters of intent to occupy the building.
- ✓ A master lease with Tumwater Office Properties (TOP) – a not-for-profit corporation that will finance the project will be signed.
- ✓ TOP will execute the 63-20 financing in the marketplace to fund project design and construction.
- ✓ The state and Wright Runstad will value engineer the current "pre-design".
- ✓ The value engineered "pre-design" will be advanced to design.
- ✓ General Administration will authorize Wright Runstad to proceed with construction.

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